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Media Contact: Rebecca Dreilinger (202) 225-8203

FOR IMMEDIATE RELEASE

(Washington D.C.) Congressman Luis V. Gutierrez (D-IL), Chairman of the Subcommittee on Domestic and International Monetary Policy, Trade and Technology, made the following statement today at the House Committee on Financial Services' semi-annual Humphrey Hawkins hearing to examine the conduct of monetary policy and the state of the U.S. economy. The committee received the testimony of Federal Reserve Chairman Ben Bernanke.

"Thank you, Mr. Chairman and welcome back, Chairman Bernanke. While economists continue to debate whether or not we are in the midst of a recession, or teetering on the edge of a recession, we do know that real GDP growth slowed sharply in the last quarter of 2007, and continued to be sluggish during the first quarter of 2008. The job market has stalled – falling at an average of 94,000 jobs per month through June and leaving us with an unemployment rate of five and a half percent. In addition, manufacturing activity has weakened and retailers are feeling the pinch.

"Making matters worse, the banking system and the credit and equity markets have been unable to find their footing. Without a healthy financial system, any economic recovery will be weak, at best.

"Of course, the fundamental source of our economic problems is the unprecedented housing downturn followed by record mortgage defaults and foreclosures. But the unraveling of the mortgage markets has undermined our financial system in ways that few expected. Now these stresses are exposing more weak spots in the system, almost daily, and the credit and equity markets remain on edge.

"Although I am concerned about the markets, I am more concerned about the economic reality that American families are facing as they sit around the kitchen table and look at their household budgets. If they are fortunate enough to be homeowners who are not faced with ballooning mortgage payments, the value of their home is decreasing. Some estimate that the decline in home prices will result in a reduction of net household wealth equivalent to 30 percent of GDP by the end of next year.

"And families are seeing the value of their hard-earned wages literally shrinking, as real wages are back down to the same level they were before the economic expansion in 2001. Meanwhile gas and food prices are on the rise. During the first five months of 2008, the price of crude oil was up 20%, the commodity and food price indexes were both up 18%, while the dollar depreciated 6%.

"Chairman Bernanke, I know that you are all too familiar with these statistics. But I raise them because there are a lot of distractions right now with the markets and regulatory matters, and I would like us to focus today on the state of the overall economy and, in particular, the obstacles the American people are facing and how your decisions – our decisions – will affect them.

"Specifically, Mr. Chairman, I would like to know your thoughts on inflation in the current environment. With stagnant wages, there is little evidence that we are entering into a wage-price spiral, but inflation is running high when measured by personal consumption expenditures. And with gasoline and other consumer energy prices climbing even higher in recent weeks, inflation seems to be a real threat in the near term. I understand that the markets need capital to grow, and that means lower interest rates. But at some point, especially with the sharp increases in commodity prices, inflation has to start playing a larger role in the Federal Reserve's decision-making. Mr. Bernanke, in the past you have discussed inflation targets and I would like to know if you think such targets might be appropriate in this environment?

"I am also concerned about the weak dollar. I recently led a Congressional Delegation to the Middle East where we met with the managers of several sovereign wealth funds. It was suggested to me by one of these fund managers that as much as 25 percent of the current price of oil can be attributed to the weak dollar. I would like to hear your thoughts on that estimate, Mr. Chairman.

"Before I close, I would like to commend you on some of your recent work. I think that allowing the GSEs to access the discount window, if it becomes necessary, was prudent. And I am pleased that the Board has finalized the Regulation Z changes aimed at preventing future predatory mortgage lending. I think the new rules are a strong step in the right direction. I am especially pleased with the ban on pre-payment penalties. Although, I am disappointed that the Board did not eliminate or even limit the yield spread premium, and I would be interested to know if this issue is something that the Board might re-visit in the future.

"Thank you and I yield back the balance of my time."

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